

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Kelley Analyst: Jeani Brent Bill Number: SB 113
Related Bills: See Legislative History Telephone: 845-3410 Introduced Date: 12/17/1998
Attorney: Doug Bramhall Sponsor: _____

SUBJECT: Manufacturing Enhancement Area Hiring Credit Modifications

SUMMARY

This bill would expand the definition of qualified taxpayer to include taxpayers engaged in certain agricultural services and would make a technical correction to the definition of qualified disadvantaged individual.

EFFECTIVE DATE

This bill specifies that its changes would apply to taxable or income years beginning on or after January 1, 1999.

LEGISLATIVE HISTORY

Senate Bill 200 (Stats. 1997, Ch. 609) enacted the Manufacturing Enhancement Area (MEA) provisions. SB 200 required the Trade and Commerce Agency (TCA) to designate up to two MEAs. In October 1998, TCA designated one MEA in the city of Brawley and the other in the city of Calexico.

SPECIFIC FINDINGS

Under the Government Code, existing state law provides for the designation of two MEAs. Using specified criteria, TCA designated two MEAs from the applications received from the governing bodies. Each MEA is binding for 15 years beginning January 1, 1998.

Under the Revenue and Taxation Code, existing state law provides a hiring credit for taxpayers conducting manufacturing (as specified in Standard Industrial Classification (SIC) codes 2011 through 3999) business activities within an MEA. The hiring credit is allowable to businesses located in an MEA for a percentage of wages paid to qualified employees. A qualified employee must be hired after the area is designated an MEA and meet certain other criteria. At least 90% of the qualified employee's work must be directly related to a trade or business located in the MEA and at least 50% must be performed inside the MEA. The business may claim up to 50% of the wages paid to a qualified employee as a credit against tax imposed on MEA income. The credit is based on the lesser of the actual hourly wage paid or 150% of the current minimum hourly wage. The amount of the credit must be reduced by any other federal or state jobs tax credits, and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring credit. To qualify for the hiring credit, businesses located in a MEA must hire at least 50% of their workforce from the county in which the MEA is located and, of that 50%, at

Board Position:

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Department Director

Date

Gerald Goldberg

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least 30% of the local hires must be qualified disadvantaged individuals, as defined.

For businesses operating inside and outside an MEA, the amount of hiring credit that may be claimed is limited by the amount of tax or income attributable to the MEA. Income is first apportioned to California using the same formula as that used by all businesses that operate inside and outside the state (property, payroll, a double-weighted sales factor). This income is further apportioned to the MEA using a two-factor formula based on the property and payroll of the business.

This bill would expand the definition of qualified taxpayer to include taxpayers engaged in agricultural services as provided in SIC codes 0711 through 0783. The major categories within these codes include soil preparation services, crop services, veterinary and other animal services, farm labor and management services, and landscape and horticultural services. This bill also would make a technical correction to the definition of qualified disadvantaged individual by specifying that the references to expired federal programs include any successor programs.

Implementation Consideration

Implementing this bill would occur during the department's normal annual system update.

Technical Consideration

This bill states that a qualified taxpayer is one engaged in SIC codes 0711 to 0783 and 2011 to 3999. The use of the word "and" is inappropriate if it is the author's intent that a taxpayer need only be engaged in an activity described in one SIC code. Amendments 1 and 2 would replace "and" with "or."

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

As a result of the provisions of this bill, any additional revenue losses to this existing credit would be negligible, less than \$250,000 annually.

This is based on the original estimates of Senate Bill 200 (Stats. 1997, Ch. 609), which projected minor revenue losses associated with the designation of two MEAs.

BOARD POSITION

Pending.

Analyst Jeani Brent
Telephone # 845-3410
Attorney Doug Bramhall

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB/SB/LP/MR
As Introduced/Amended

AMENDMENT 1

On page 4, line 13, strikeout "and" and insert:

or

AMENDMENT 2

On page 12, line 11, strikeout "and" and insert:

or